



# The Audit Plan for London Borough of Haringey

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**Year ended 31 March 2014**

March 2014

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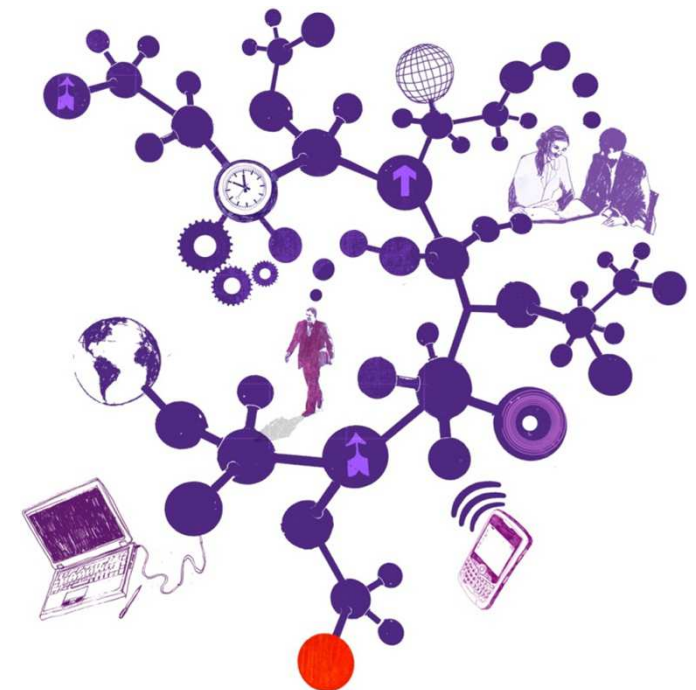
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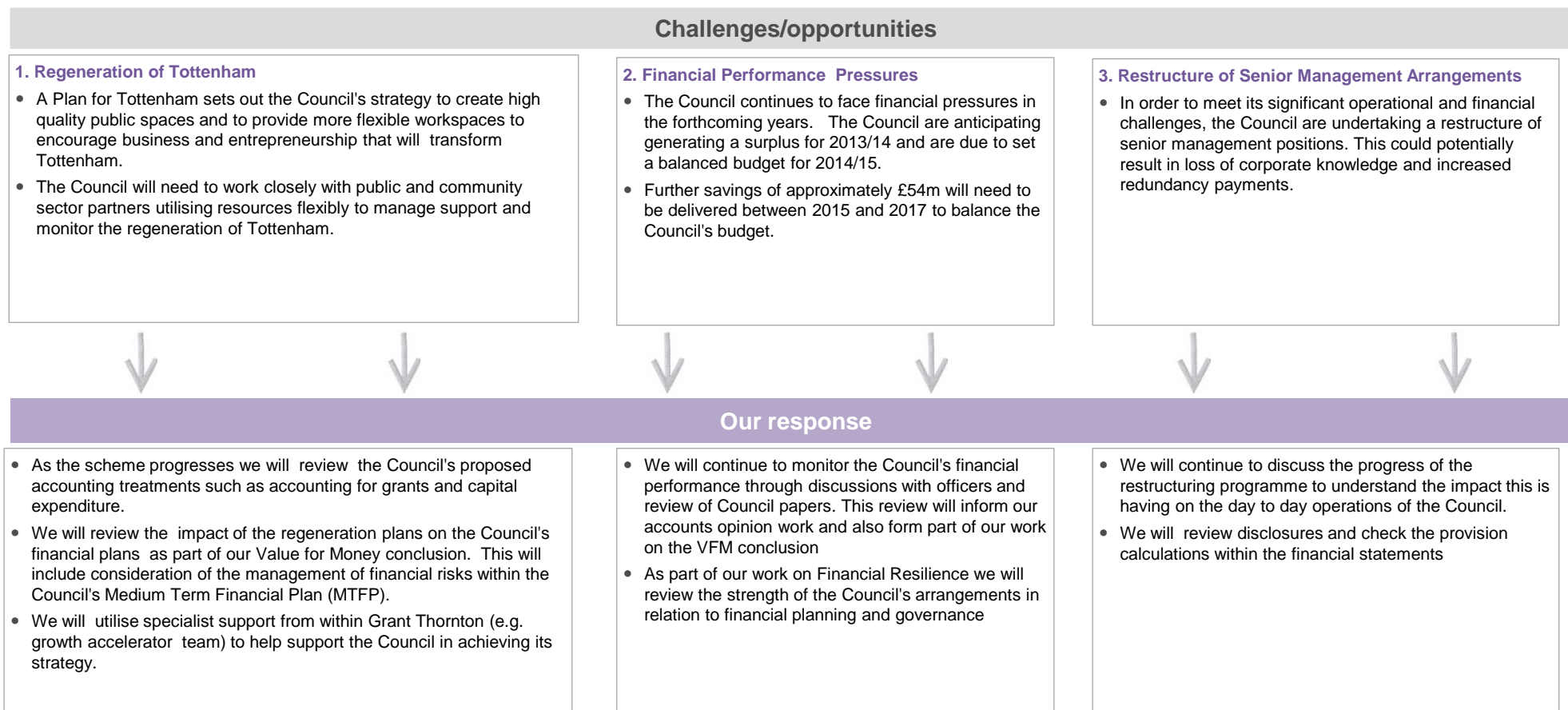
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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



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## Challenges/opportunities

### 4. The Better Care Fund

- The Better Care Fund will be introduced in 2015/16. This is a single pooled budget for health and social care services to work more closely together in local areas providing integrated solutions for the community. The Council along with Haringey Clinical Commissioning Group (CCG) will be responsible for delivering the Better Care Fund Plan for the area
- The Health and Wellbeing Board are required to approve the Better Care Fund Plan. The draft plan has been signed off by cabinet and built into the Council's MTFP. The final plan should be submitted to NHS England by 4 April 2014.



### 5. Welfare Reform Act

- The Welfare Reforms are considered to be the biggest overhaul of the benefits system since the 1940s. The aim of the reforms is to simplify the benefits system in order to improve incentives to work. The Council was an early implementer of the benefits cap.
- Alongside Council Tax Benefit changes councils have to arrange for the delivery of a new local welfare payments system which replaces the Social Fund.



## Our response

- We will continue to discuss with the Council how it is proceeding with the development of its joint plans and monitor proposed timelines for implementation of the new arrangements in time for the 2014/15 financial year
- We will review the impact of the funding on the MTFP and ensure that proper consideration has been taken when identifying the cost of implementing the Plan

- We will review the current impact of these reforms with the Council as part of our financial resilience work to ensure that there are adequate arrangements in place to manage these changes in both the short, medium and long term
- Our work will also include reviewing the impact and budgeting of the localisation of Council Tax Benefits
- We will review the Council's provisions for bad debt for both HRA rents and Council Tax as part of our final accounts testing
- We will review the planned financial risks relating to the changes in welfare within the Council's MTFP as part of our VfM work

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. Financial reporting

- Changes to the CIPFA Code of Practice
- Clarification of Code requirements for Property Plant and Equipment (PPE) valuations
- Changes to NDR accounting and provisions for business rate appeals
- Transfer of assets to Academies

### 2. Legislation

- Local Government Finance settlement
- Welfare reform Act 2012

### 3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

### 4. Pensions

The Code requires a number of changes in the accounting for the Local Government pension Scheme (LGPS). These are most notably in regards to:

- Changes in Accounting policy
- A reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures

### 5. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

## Our response

We will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice and the changes in requirements for valuation of PPE are correctly applied
- the Council's approach to accounting for business rate appeals, ensuring that any provisions made are reasonable and estimates and judgements are supportable
- schools are accounted for correctly and in line with the latest guidance

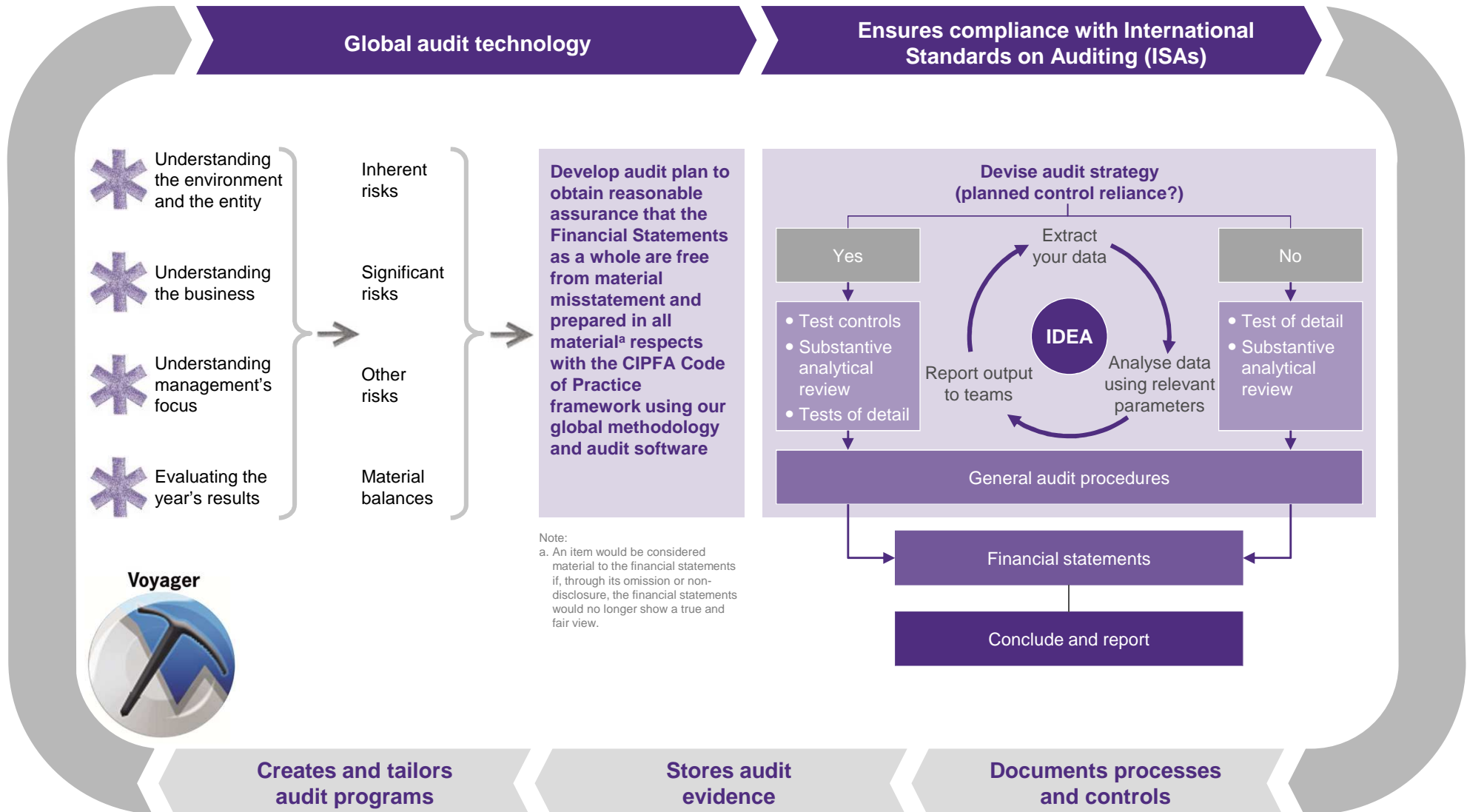
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management

- We will carry out work on the WGA pack in accordance with requirements
- We will certify grant claims and returns in accordance with Audit Commission requirements

# Our audit approach



# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Testing of material revenue streams</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Review of journal controls and early discussion of accounting estimates, judgments and decisions made by management</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>



## Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the reconciliation between the subsidiary system and the general ledger</li> <li>We will complete attribute testing on a sample of invoices and goods receipt notes and other confirmations to ensure that transactions have been recognised</li> <li>We will undertake cut-off testing to determine whether expenses are recorded in the correct period</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the reconciliation between the payroll system and the general ledger</li> <li>We will complete monthly trend analysis of payments recognised</li> <li>We will agree year end-payroll creditors to the payroll system and HMRC returns</li> <li>We will complete sample testing on employees that commenced working for the Council to verify that transactions for all appropriate entitlement periods have been recognised</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work</li> </ul>	<ul style="list-style-type: none"> <li>We will review the reconciliation between the subsidiary system and the general ledger</li> <li>We will complete the initial DWP certification testing of Housing benefits, including analytical review and verification of benefits awarded on a sample basis.</li> <li>We will substantively test Council Tax Support payments</li> </ul>

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## Other risks identified

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In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"><li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work</li></ul>	<ul style="list-style-type: none"><li>We will perform detailed analytical review procedures in order to gain assurance over the completeness of rental income</li><li>We will perform attribute testing, selecting a sample from the properties listing to verify the completeness of rental income</li></ul>

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Alexandra Park and Palace Trust	Yes	Analytical	We have not identified any specific risk in relation to the transaction cycles. We have been liaising with the Council to ensure that the audit report of the Alexandra Park and Palace Trust is signed off in a timely manner to prevent any delay to the group audit.	<p>We have contacted the auditors of the Alexandra Park and Palace Trust to obtain their view on current risks. We will consider these as part of our audit planning.</p> <p>We will review the financial statements and the findings from the audit of the Alexandra Park and Palace Trust.. We will check that these financial statements have been correctly consolidated .</p>
Homes for Haringey	Yes	Targeted	We have not identified any specific risk in relation to the transaction cycles. We have been liaising with the Council to ensure that the audit report of the Homes for Haringey is signed off in a timely manner to prevent any delay to the group audit.	<p>We have contacted the auditors of the Homes for Haringey to obtain their view on current risks. We will consider these as part of our audit planning.</p> <p>We will carry out a review of the financial statements and the findings from the audit of the Homes for Haringey.</p> <p>We will check that these financial statements have been correctly consolidated .</p>

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# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment against a number of key risk indicators to identify areas of risk to the VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Update our understanding of the Council's arrangements in respect of financial performance, financial governance, strategic financial planning and financial control and report any weaknesses identified to the Council
- Follow up recommendations from the 2012/13 financial resilience report
- Consider any reports issued by regulators to ensure that potential impacts are being suitably managed by the Council.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

## Results of interim audit work

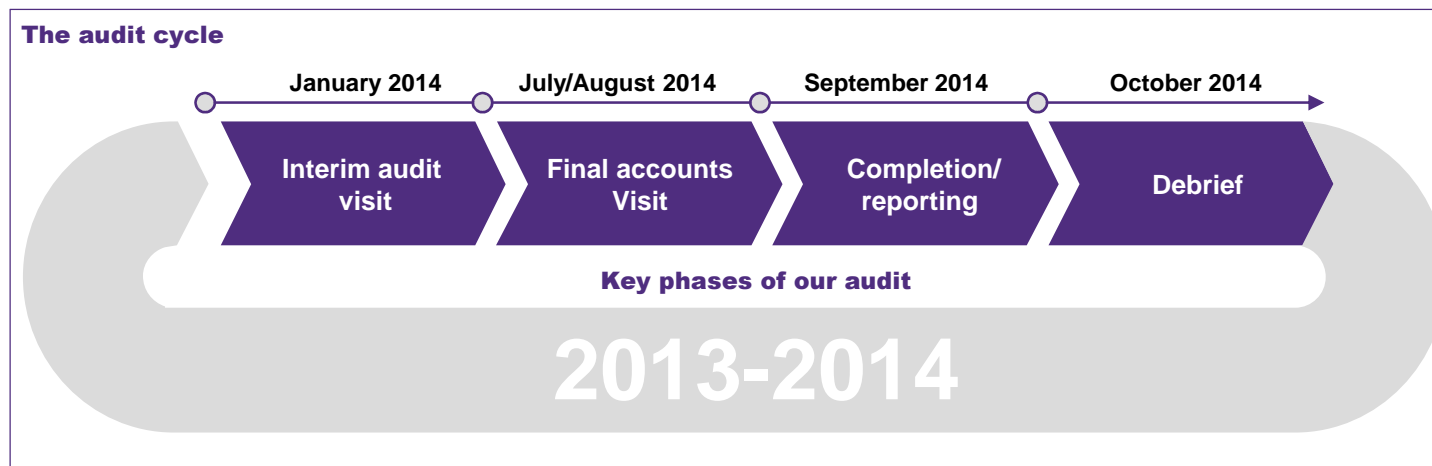
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	We have reviewed internal audit's overall arrangements for the 2013/14 financial year to provide assurance over the independence of the internal audit function including the Head of Internal Audit Opinion presented in the Annual Governance Statement.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.  We will further review internal audit's reports on the Council's key financial systems and factor these findings into our audit approach. Where necessary, any weaknesses identified will be reported in our Audit Findings Report.
<b>Walkthrough testing</b>	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.  Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
<b>Review of information technology controls</b>	Our information systems specialist are currently undertaking a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.	We will report our findings on completion of the work .

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>No significant issues were identified in the review of journal policies and procedures.</p> <p>We will gain assurance over the appropriateness of the journal transactions processed by reviewing individual entries which have been processed in the production of the financial statements as well as those used throughout the year.</p>
<b>Early substantive testing</b>	<p>We have undertaken early substantive testing on the following for the first nine months of the year:</p> <ul style="list-style-type: none"> <li>• Non grant revenue</li> <li>• Employee remuneration transactions</li> </ul> <p>This has provided assurance over the occurrence and accuracy of transactions posted to the general ledger.</p>	<p>No significant issues were identified from our early substantive testing. The transactions have been recognised in accordance with our expectations and posted to the appropriate ledger codes.</p> <p>We will complete testing on non grant revenues and payroll transactions for months 10 to 12.</p>

# Key dates



Date	Activity
December / January 2014	Planning
January 2014	Interim site visit
March 2014	Presentation of audit plan to Corporate Committee
July / August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with the Interim Chief Operating Officer and the Assistant Director of Finance
September 2014	Report audit findings to those charged with governance (Corporate Committee)
September 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	272,700
Grant certification	45,600
<b>Total fees (excluding VAT)</b>	<b>318,300</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.



# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

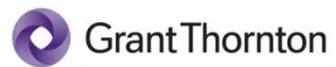
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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